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Employee Engagement and Business Performance – a Review of quantitative evidence

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Employee engagement has been a hot topic in recent years among both academic researchers and practitioners. It is often believed that employee engagement can drive productivity and creativity and improve business performance. But what does the evidence suggest about the relationship between employee engagement and business performance? This SOTA review examines studies at individual and business unit/organisational levels to assemble the quantitative evidence to date on the relationship between the two.

The evidence suggests that at the individual level there is relatively solid evidence that there is a positive association between employee engagement and individual task performance. The evidence also suggests that employee engagement is likely the antecedent. At the business unit and organisational level, however, the small number of studies available makes it too early to draw valid conclusions. Initial findings reveal a positive association between collective engagement and business unit/organisational performance. However, the causal order is not clear.

Background

Employee engagement is defined as employees' willingness to 'employ and express themselves physically, cognitively, and emotionally during role performance' (Kahn, 1990, p. 694) or 'a positive, fulfilling work-related state of mind that is characterised by vigour, dedication, and absorption (Schaufeli, Salanova, González-Romá, & Bakker, 2002, p.72). Engaged employees are energetic, see themselves as able to handle job demands and develop an effective connection with their work activities. Numerous scholars and consulting companies have extolled the virtues of employee engagement for improving business performance. For example, Gallup claimed that employee engagement improved a range of business outcomes including lower absenteeism and turnover, fewer safety incidents, less shrinkage and higher customer metrics, higher productivity and profitability. At the same time, however, others (Dicke, Holwerda, & Kontakos, 2007) have criticised the lack of rigorous research design

to prove a 'causal' relationship between employee engagement and business performance, that is, employee engagement is indeed *responsible* for higher business performance, instead of the opposite direction or the relationship between the two being merely a correlation due to a third common cause.

What does the available, up-to-date quantitative evidence suggest about the relationship between employee engagement and business performance? This review aims to assemble the existing evidence and review the status quo of research on this topic. It complements ERC SOTA Review no. 13, which explores definitions of engagement and a range of HRM and organisational outcomes.

Evidence

There is extensive research on the relationship between employee engagement and job performance at the individual level. The meta-analysis of over 200 published and 30 unpublished articles by Christian, Garza and Slaughter (2011) concludes that the average correlation between work engagement and individual task performance is .43. Work engagement explained an additional 19% of variance in task performance beyond that explained by job satisfaction, organisational commitment and job involvement. Engaged employees also go beyond their job descriptions and behave in ways that enhance the social context of an organisation, which is termed 'contextual performance' (Borman & Motowidlo, 1993). The average correlation between work engagement and individual contextual performance is .34. Work engagement explained an additional 16% of the variance in contextual performance beyond that explained by job satisfaction, organisational commitment and job involvement. It is however noted by the authors that most studies included in the meta-analysis are cross-sectional and therefore, unable to prove the causal order. Although a few studies adopted a time-lagged research design and revealed a positive relationship between engagement and performance, the small number of studies renders the findings inconclusive. Further, it is noted that the majority of studies included in the review relied on self-report methods, which could have inflated the size of correlation. The narrative synthesis of Bailey, Madden, Alfes and Fletcher (2017) which incorporates the most recent research on engagement has revealed multiple more rigorously designed studies published since Christian's (2011) meta-analysis. These studies provide support for a positive association between engagement and task performance and suggest promising possibility of a positive relationship between engagement and contextual performance, too. Due to the sheer volume of studies at the individual levels, we don't list the individual studies below.

Compared to the studies at the individual level, much fewer studies exist at the business unit and organisational level. Although some studies claimed they studied engagement at the business unit or organisational level, they actually refer to concepts different from engagement, such as workplace facets that relate to job satisfaction and can be actioned upon by managers (e.g., Harter, Schmidt, & Hayes, 2002). In this review, we excluded these studies and refer to engagement at the business unit or organisational level as "collective engagement".

We note that most studies on collective engagement were conducted in a service setting. Salanova, Agut, and Peiro (2005) conducted research in 114 service units including both hotels and restaurants. They found that collective engagement was positively related to the service climate in these organisations which was then positively related to customer rated employee performance and customer loyalty. Specifically, as collective engagement increased by one standard deviation,

customer rated employee performance increased by about 0.20 standard deviations and customer loyalty increased by 0.15 standard deviations.

Another study conducted by Gracia, Salanova, Grau and Cifre (2013) revealed similar results. Researching 107 Spanish tourist establishments, they found that collective engagement was positively related to relational service competence which is 'the units' perceptions of their current competence in providing customers with positive attributes that are unexpected or not necessarily required and go beyond formal role requirements' (p. 45). Relational service competence was then related to customer rated service quality. The indirect effect of collective engagement on service quality was about 0.13, meaning that as collective work engagement increased by one standard deviation, customer rated service quality increased by 0.13 standard deviations.

The survey of Slåtten and Lien (2016) on 210 professional consultancy service employees revealed that collective engagement was positively associated with relational learning within firms (a concept similar to knowledge sharing), firm's innovative capability, generation of creative strategy for customers and employee commitment. Specifically, as collective engagement increased by one standard deviation, relational learning increased by 0.51 standard deviations; firm's innovative capability increased by 0.51 standard deviations; generation of creative strategy for customers increased by 0.21 standard deviations; and employee commitment increased by 0.66 standard deviations. However, this study relied on single individuals' report of all the firm level variables.

While the studies above have utilised a cross-sectional research design, another study using 83 small- to medium-sized credit unions in the United States as the research sample (Barrick, Thurgood, Smith, & Courtright, 2015) found that collective engagement was positively related to organisational financial performance (Return on assets, ROA) six months later. Specifically, after controlling for other variables, collective organisational engagement explained another 4% variance in the credit unions' ROA. This is also the first study rigorously testing the financial consequences of collective engagement.

Table 1: Collective engagement and business unit / organisational performance

Study	Data	Business unit /organisational performance measure	Principal empirical results:
Salanova, Agut, & Peiro (2005)	114 service units (58 hotel front desks and 56 restaurants)	Customer rated employee performance and customer reported loyalty	Collective organisational engagement is positively related to service climate. Service climate is positively related to employee performance. Employee performance is positively related to customer loyalty.
Gracia, Salanova, Grau & Cifre (2013)	107 Spanish tourist establishments	Unit service quality, as rated by customers	There is a positive association between collective work engagement and relational service competence. Relational service competence fully mediated the relationship between collective work engagement and unit service quality.
Barrick, Thurgood, Smith, Courtright (2015)	83 small- to medium-sized credit unions in the US	Return on assets (ROA)	Collective organisational engagement is associated with a 4 percent increase in credit unions' ROA.
Slåtten, & Lien (2016)	210 respondents from consultancy service firms	Firm's innovative capability and customers' creative strategy generation	Collective engagement was positively associated with firms' innovative capacity and customers' creative strategy generation.

Summary and evidence gaps

The aim of this review is to assemble evidence to date concerning the relationship between work engagement and business performance. To sum up, at the individual level, research findings lend relatively solid support to the view that there is a positive association between work engagement and individual task performance. Although most studies used cross-sectional data, it is promising that those studies employing more complex and rigorous research design have reached the same conclusion so far. These studies also provide more clarity on the causal order, suggesting that work engagement is likely to be the antecedent of individual task performance.

In contrast, much fewer studies exist at the business unit or organisational level where research has potential to offer more valuable practical advice to business and policy makers. Hence, findings at these levels are not conclusive yet. Initial findings suggest that there is a positive association between collective engagement and business unit or organisational performance, including customer-oriented performance and financial performance. As all studies but one adopts a cross-sectional design, the causal order is by no means clear-cut. It is also noteworthy that the few existing studies are mostly conducted in the service sector. To what extent the findings can be generalised to other sectors is a question to be explored. More research in a range of contexts is therefore warranted to better understand the direction and effect size of the relationship between collective engagement and business performance.

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